



State of Rhode Island and Providence Plantations

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

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MEMORANDUM

To: The Honorable Lincoln C. Almond, Governor
The Honorable John B. Harwood, Speaker of the House
The Honorable William V. Irons, Senate Majority Leader

From: Russell C. Dannecker, Senate Fiscal Advisor
Michael F. O'Keefe, House Fiscal Advisor
Stephen P. McAllister, State Budget Officer

Date: 23 August, 2001

Subject: May 2001 Revenue Estimating Conference

The Revenue Estimating Conference (REC) met on 2, 9, 10, and 14 May 2001 in open public meetings. The conferences issued a revised estimate for FY2001 and FY2002 revenues. They are shown on the attached tables. Adopted estimates reflect current projections for the Rhode Island economy. The projections were presented by Robert J. Langlais, Assistant Director, Labor Market Information, Department of Labor and Training; Sara L. Johnson, North American Research Director for Standard & Poor's DRI; Steven G. Cochrane, Director of Regional Services, Economy.com, Inc; and Frederick J. Kelly, New England Economic Project.

RHODE ISLAND ECONOMIC FORECAST

Department of Labor and Training

The recent layoff announcements by Rhode Island businesses are beginning to show up in the claims data as both initial claims and continued claims have shown year over year increases in recent weeks. This is reflected in the rise in our unemployment rate to 4.0% in March. On the employment side, resident employment continues to show year over year gains but the large drop from February to March in resident employment is cause for concern. This is coupled with the fact that the number of jobs at Rhode Island businesses are still growing year over year but at a declining rate. The 1.2% gain in March was the weakest so far this year. All of Rhode Island's employment and claims data indicate that the job market is clearly slowing down. With a 4.0% unemployment rate, the employment situation is still positive but there were signs of weakness in March and April.

Standard & Poor's DRI

A summary of Rhode Island's outlook was presented. The State's employment growth is stalling. Manufacturing job loss will continue through 2002. Finance remains an engine of job growth but retail trade will stall. Rhode Island's service jobs show growth, business services revive, and health care jobs fade. Lower interest rates create a stable environment for construction. Taxable personal income growth is slowing.

Economy.com, Inc.

Several near term cyclical risks in the economy of Rhode Island were noted. The surge in construction is over with only multifamily construction remaining strong. A member of the Revenue Estimating Conference suggested that Government construction might help to offset the drop off in private construction. Tourism was noted as being subject to weaker disposable income. The recent expansions in Financial Services are largely complete. This segment is subject to some risk due to stock market weakness, but less so than Boston and New York. Rhode Island's longer-term opportunities were noted as follows. While the technology segment is now in its infancy, Rhode Island's costs and quality of life are advantages. The State also has better transportation links to the region, because of the airport expansion and high-speed rail.

New England Economic Project

For Rhode Island, the signals are mixed and the eventual results will obviously depend upon events at the national level. The combination of energy price problems (transportation and cooling costs) and the wealth effect fallout from last year's market debacle will affect summer tourism. Overall, the summer economy will not be as strong as in years past. The recent shakeout of the retail sector and continued softening in the manufacturing area will also have dampening effects on the economy. These will be offset by strength in the financial services and housing sectors, which will continue to expand. Thus, overall economy activity through the summer and fall will be relatively stagnant with low growth.

Consensus Forecast

The Revenue Estimating Conference adopted an economic estimate that is based on a period of slowing employment and income growth through FY2002, as well as moderate growth in consumer prices. The consensus forecast is shown on the table below.

The Consensus Economic Forecast			
<i>Adopted May, 2001</i>	Revenue Estimating Conference		
	FY2000	FY2001	FY2002
Total Employment (in thousands)	471.7	478.7	482.5
Annual Percentage Change	2.3%	1.5%	0.8%
Total Personal Income (in billions)	30.0	32.0	33.4
Annual Percentage Change	5.9%	6.7%	4.4%
Consumer Price Index - United States			
Fiscal Year Annual Percentage Change	2.9%	3.3%	2.4%
Calendar Year Annual Percentage Change	3.4%	2.9%	2.2%
<i>(For Motor Vehicle Excise Tax)</i>			

FY2001 -- REVENUES

Resources available totaled \$2,277.3 million in FY2000. The May Revenue Estimating Conference estimates that in FY2001 available resources will total \$2,535.1 million. This is an increase of \$257.8 million. This represents an 11.3% growth rate over FY2000. When the General Assembly enacted the FY2001 budget, the growth rate was estimated to be 5.1%.

November Conference Estimate compared to the May Conference Estimate

When compared to the November estimate for FY2001, the revised revenue estimate of \$2,535.1 million increased available resources by \$43.5 million. The November FY2001 Revenue Estimate was \$2,491.6 million. The total estimate of *Taxes* increased by \$37.2 million from the November level. The estimate for the largest single source of revenue, the Personal Income Tax was increased from \$863.5 to \$920.7, a change of \$57.2 million. This upward change was based on actual collections through the end of April. The projected growth rate for the Personal Income Tax is now 12.7% compared to November's 5.7%. Offsetting this increase was a change from the November estimate for Rhode Island's second largest source of revenue. The Sales & Use Tax estimate was decreased by \$34.3 million. This revision is predicated on a collection history for the last ten months. The projected growth rate for the Sales & Use Tax is now 12.0% compared to November's 17.4%. There were two notable changes from the November estimates for the Public Utilities Gross Earnings, and Inheritance & Gift taxes. The Public Utilities Gross Earnings tax estimate increase from \$73.0 million to \$81.0 million an increase of \$8.0 million. This gain was offset by changes in the estimate for the Inheritance & Gift tax which dropped from November's estimate of \$31.0 million to May's \$22.5 million, a decline of \$8.5 million. Considering collection history, to date the total estimate of *Departmental Revenues* increased by \$2.5 million from November's estimated level. The total estimate of *Other Sources* increased by \$3.9 million.

It should be noted that the Revenue Estimating conferees agreed that certain revenue items proposed by the Governor, that did not require law changes, and non-statutory items included in the pending Supplemental Appropriations act would be included in the May estimate, as well as the statutory reduction of the Hotel Tax rate that was enacted prior to the conference. These items net to \$9.5 million for FY2001. Therefore, of the \$43.5 million increase from the November estimate, \$9.5 million must be deducted in order to determine the impact on the Governor's proposed budget. The FY2001 impact is an increase of \$34.0 million.

FY2001 Compared to FY2002

FY2001 May Conference Estimate compared to FY2002 May Conference Estimate

When compared to the FY2001 May Conference Estimate the FY2002 revenue estimate of \$2,465.5 million indicates that available resources will decrease by \$69.6 million. The total estimate of **Taxes** increased by \$23.1 million from the FY2001 consensus level. The Personal Income Tax estimate will increase \$24.3 million calculated by using the FY2001 estimate and an overall growth rate, including the rate reduction, of 2.6%. This is less than the projected growth rate of 12.7% for FY2001. The Sales & Use Tax is projected to increase \$23.0 million over the FY2001 consensus level. This is a 3.3% rate of growth compared to 12.0% growth rate in FY2001. It should be noted that a large portion of the FY2001 growth is attributable to the inclusion of Sales Tax proceeds previously dedicated to DEPCO debt repayment. Prior to FY2001, 0.6% of the total 7.0% Sales Tax was not included in General Revenue. Since the debt was fully defeased in FY2001, the proceeds are no longer required for debt service, and are included in General Revenue. The total estimate of **Departmental Revenues** decreases by \$78.2 million from the FY2001 consensus level. This reflects the expiration of the Hospital Licensing Fee of \$53.8 million. The total estimate of **Other Sources** decreases by \$14.5 million from the FY2001 consensus level. \$5.8 million of this decrease reflects the continued dedication of the gasoline tax to transportation issues and \$18.2 million in Other Miscellaneous Revenues. A \$15.2 million DEPCO transfer in FY2001 that does not repeat in FY2002 causes the Other Miscellaneous decrease. The Other Sources decreases are offset by a \$10.1 million increase in estimated lottery proceeds.

November Conference Estimate compared to the May Conference Estimate

When compared to the November estimate for FY2002, the revised revenue estimate of \$2,465.5 million decreased available resources by \$13.0 million. The November FY2002 Revenue Estimate was \$2,478.6 million. The total estimate of **Taxes** decreased by \$12.6 million from the November level. The estimate for the largest single source of revenue, the Personal Income Tax was increased from \$906.5 to \$945.0, a change of \$38.5 million. Offsetting this increase was a change from the November estimate for Rhode Island's second largest source of revenue. The Sales & Use Tax estimate was decreased by \$45.8 million. In addition to these two changes, there was one additional notable change from the November estimates for Inheritance & Gift taxes. The estimate for the Inheritance & Gift tax that dropped from November's estimate of \$31.0 million to May's \$22.5 million a decline of \$8.5 million. The total estimate of **Departmental Revenues** decreased by \$1.4 million from November's estimated level. The total estimate of **Other Sources** increased by \$1.0 million.

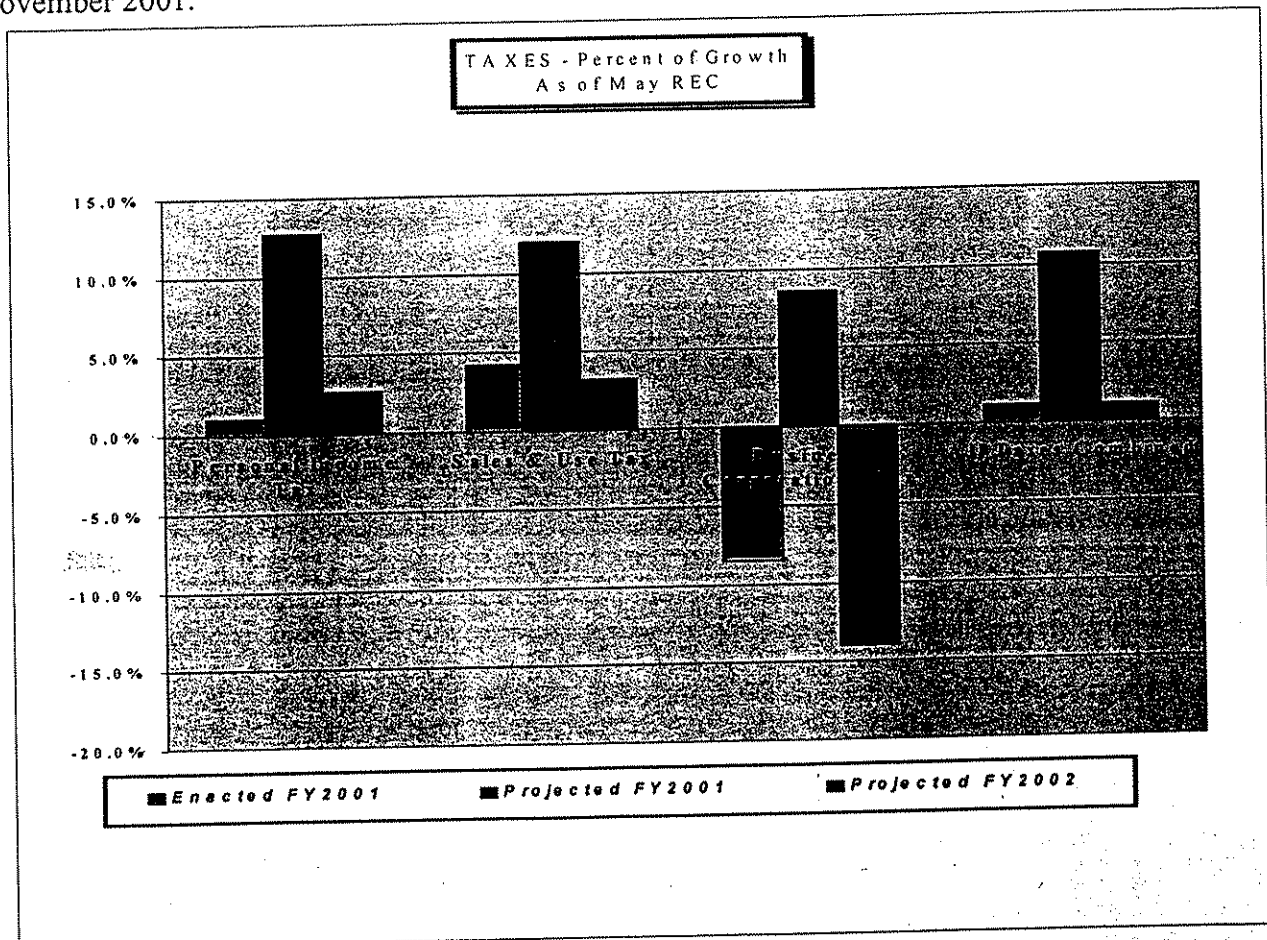
It should be noted that the Revenue Estimating conferees agreed that certain revenue items proposed by the Governor, that did not require law changes, and non-statutory items included in the pending Supplemental Appropriations act would be included in the May estimate, as well as the Hotel Tax rate reduction that was enacted prior to the conference. These items net to a minus \$4.9 million for FY2002. Therefore, of the \$13.0 million decrease from the November estimate, \$4.9 million must be added in order to determine the impact on the Governor's proposed budget. The FY2002 impact is a decrease of \$8.2 million.

Impact on the Governor's Proposed Budget

When the FY2002 decrease of \$8.2 million is subtracted from the FY2001 increase of \$34.0 million the two year impact of the revised estimates equals \$25.8 million. The Rhode Island Constitution provides that only 98% of this amount is available for expenditure. Therefore, available resources increase by only \$24.6 million.

ATTACHMENTS & NEXT MEETING

Attached you will find three charts and below one graph that details the changes noted in the narrative above. The next required meeting of the conference is currently scheduled for November 2001.



FY01F Report

REVENUE COMPARISONS - FY2001									
TABLE: REC #1	Actual	Enacted	Conference	Conference	Conference	Conference	Growth	Rate	Growth
REC Report	FY2000	FY2001	November	May	May	May	FY00	FY00	FY01
23-Aug-01			Estimate	Estimate	Vs Enacted	vs	to Enacted	Con. Nov.	Con. May
GENERAL REVENUES			FY2001	FY2001	FY2001	Conference	FY01	FY01	FY01
TAXES									
Personal Income Tax	\$817,079,620	\$825,402,344	\$863,500,000	\$920,700,000	\$95,297,656	\$57,200,000	1.0%	5.7%	12.7%
GENERAL BUSINESS TAXES:									
Business Corporations	\$67,995,553	\$62,700,000	\$70,000,000	\$74,400,000	\$11,700,000	\$4,400,000	-7.8%	2.9%	9.4%
Franchise	\$7,746,246	\$7,800,000	\$7,800,000	\$8,000,000	\$200,000	\$200,000	0.7%	0.7%	3.3%
Public Utilities Gross Earnings	\$73,011,717	\$70,400,000	\$73,000,000	\$81,000,000	\$10,600,000	\$8,000,000	-3.6%	0.0%	10.9%
Financial Institutions	\$7,683,012	\$2,800,000	\$9,100,000	\$13,900,000	\$11,100,000	\$4,800,000	-63.6%	18.4%	80.9%
Insurance Companies	\$31,324,916	\$33,500,000	\$31,300,000	\$34,500,000	\$1,000,000	\$3,200,000	6.9%	-0.1%	10.1%
Bank Deposits	\$947,979	\$900,000	\$1,000,000	\$900,000	\$0	(\$100,000)	-5.1%	5.5%	-5.1%
Health Care Provider Assessments	\$24,641,523	\$25,300,000	\$25,500,000	\$27,400,000	\$2,100,000	\$1,900,000	2.7%	3.5%	11.2%
SALES AND USE TAXES:									
Sales and Use	\$631,304,598	\$657,965,831	\$741,300,000	\$707,000,000	\$49,034,169	(\$34,300,000)	4.2%	17.4%	12.0%
Motor Vehicle	\$43,689,813	\$45,400,000	\$45,400,000	\$44,100,000	(\$1,300,000)	(\$1,300,000)	3.9%	3.9%	0.9%
Motor Fuel	\$641,041	\$1,010,000	\$641,000	\$900,000	(\$110,000)	\$259,000	57.6%	0.0%	40.4%
Cigarettes	\$59,392,252	\$57,300,000	\$58,200,000	\$59,300,000	\$2,000,000	\$1,100,000	-3.5%	-2.0%	-0.2%
Alcohol	\$9,209,855	\$9,000,000	\$9,300,000	\$9,200,000	\$200,000	(\$100,000)	-2.3%	1.0%	-0.1%
Marijuana Controlled Substances	\$165	\$0	\$0	\$0	\$0	\$0	-100.0%	-100.0%	-100.0%
OTHER TAXES:									
Inheritance and Gift	\$35,563,398	\$31,000,000	\$31,000,000	\$22,500,000	(\$8,500,000)	(\$8,500,000)	-12.8%	-12.8%	-36.7%
Racing & Athletics Tax	\$5,374,515	\$5,000,000	\$5,300,000	\$5,400,000	\$400,000	\$100,000	-7.0%	-1.4%	0.5%
Realty Transfer	\$2,173,033	\$2,200,000	\$2,200,000	\$2,500,000	\$300,000	\$300,000	1.2%	1.2%	15.0%
TOTAL - Taxes	\$1,817,779,234	\$1,837,678,175	\$1,974,541,000	\$2,011,700,000	\$174,021,825	\$37,159,000	1.1%	8.6%	10.7%
DEPARTMENTAL REVENUE									
Licenses and Fees	\$108,899,760	\$136,527,377	\$146,700,000	\$149,200,000	\$12,672,623	\$2,500,000	25.4%	34.7%	37.0%
Fines and Penalties	\$27,946,627	\$23,000,000	\$23,000,000	\$23,000,000	\$0	\$0	-17.7%	-17.7%	-17.7%
Sales and Services - Total	\$33,386,484	\$31,612,029	\$24,800,000	\$24,800,000	(\$6,812,029)	\$0	-5.3%	-25.7%	-25.7%
Miscellaneous	\$37,166,354	\$52,691,512	\$57,500,000	\$57,500,000	\$4,808,488	\$0	41.8%	54.7%	54.7%
TOTAL - Departmental Revenues	\$207,399,225	\$243,830,918	\$252,000,000	\$254,500,000	\$10,669,082	\$2,500,000	17.6%	21.5%	22.7%
TOTAL - GENERAL REVENUE	\$2,025,178,459	\$2,081,509,093	\$2,226,541,000	\$2,266,200,000	\$184,690,907	\$39,659,000	2.8%	9.9%	11.9%
OTHER SOURCES									
Gas Tax Transfers	\$14,937,694	\$8,400,000	\$8,167,250	\$9,373,663	\$973,663	\$1,206,413	-43.8%	-45.3%	-37.2%
Other Miscellaneous	\$83,412,911	\$117,452,542	\$76,190,797	\$77,467,130	(\$39,985,412)	\$1,276,333	40.8%	-8.7%	-7.1%
Lottery	\$150,283,635	\$178,165,586	\$177,200,000	\$178,200,000	\$34,414	\$1,000,000	18.6%	17.9%	18.6%
Unclaimed Property	\$3,520,488	\$3,500,000	\$3,500,000	\$3,900,000	\$400,000	\$400,000	-0.6%	-0.6%	10.8%
TOTAL - Other Sources	\$252,154,727	\$307,518,128	\$265,058,047	\$268,940,793	(\$38,577,335)	\$3,882,746	22.0%	5.1%	6.7%
TOTAL - RESOURCES AVAILABLE	\$2,277,333,187	\$2,389,027,221	\$2,491,599,047	\$2,535,140,793	\$146,113,572	\$43,541,746	4.9%	9.4%	11.3%

REVENUE COMPARISONS - FY2002									
TABLE: REC #2	Conference November Estimate FY2001	Conference November Estimate FY2002	Conference May Estimate FY2002	Conf. FY2001 May Vs Conf. FY2002 May	Conf. FY2002 November Vs Conf. FY2002 May	Growth Rate FY00 to Con. May FY01	Growth Rate Nov. FY01 to Con. Nov. FY02	Growth Rate May FY01 to Con. May FY02	
REC Report									
23-Aug-01									
GENERAL REVENUES									
TAXES									
Personal Income Tax	\$863,500,000	\$906,500,000	\$945,000,000	\$24,300,000	\$38,500,000	12.7%	5.0%	2.6%	
GENERAL BUSINESS TAXES:									
Business Corporations	\$70,000,000	\$68,000,000	\$64,000,000	(\$10,400,000)	(\$4,000,000)	9.4%	-2.9%	-14.0%	
Franchise	\$7,800,000	\$7,800,000	\$7,900,000	(\$100,000)	\$100,000	3.3%	0.0%	-1.3%	
Public Utilities Gross Earnings	\$73,000,000	\$73,000,000	\$81,000,000	\$0	\$8,000,000	10.9%	0.0%	0.0%	
Financial Institutions	\$9,100,000	\$6,000,000	\$5,000,000	(\$8,900,000)	(\$1,000,000)	80.9%	-34.1%	-64.0%	
Insurance Companies	\$31,300,000	\$31,300,000	\$31,300,000	(\$3,200,000)	\$0	10.1%	0.0%	-9.3%	
Bank Deposits	\$1,000,000	\$1,000,000	\$900,000	\$0	(\$100,000)	-5.1%	0.0%	0.0%	
Health Care Provider Assessments	\$25,500,000	\$27,400,000	\$26,600,000	(\$800,000)	\$0	11.2%	4.3%	-2.9%	
SALES AND USE TAXES:									
Sales and Use	\$741,300,000	\$775,800,000	\$730,000,000	\$23,000,000	(\$45,800,000)	12.0%	4.7%	3.3%	
Motor Vehicle	\$45,400,000	\$46,000,000	\$44,000,000	(\$100,000)	(\$2,000,000)	0.9%	1.3%	-0.2%	
Gasoline	\$641,000	\$641,000	\$900,000	\$0	\$259,000	40.4%	0.0%	0.0%	
Cigarettes	\$58,200,000	\$57,000,000	\$58,500,000	(\$800,000)	\$1,500,000	-0.2%	-2.1%	-1.3%	
Alcohol	\$9,300,000	\$9,300,000	\$9,400,000	\$200,000	\$100,000	-0.1%	0.0%	2.2%	
Marijuana Controlled Substances	\$0	\$0	\$0	\$0	\$0	-100.0%	#DIV/0!	#DIV/0!	
OTHER TAXES:									
Inheritance and Gift	\$31,000,000	\$31,000,000	\$22,500,000	\$0	(\$8,500,000)	-36.7%	0.0%	0.0%	
Racing & Athletics Tax	\$5,300,000	\$5,300,000	\$5,400,000	\$0	\$100,000	0.5%	0.0%	0.0%	
Realty Transfer	\$2,200,000	\$2,500,000	\$2,400,000	(\$100,000)	\$200,000	15.0%	0.0%	-4.0%	
TOTAL - Taxes	\$1,974,541,000	\$2,011,700,000	\$2,034,800,000	\$23,100,000	(\$12,641,000)	10.7%	3.7%	1.1%	
DEPARTMENTAL REVENUE									
Licenses and Fees	\$146,700,000	\$74,600,000	\$76,100,000	(\$73,100,000)	\$1,500,000	37.0%	-49.1%	-49.0%	
Fines and Penalties	\$23,000,000	\$23,000,000	\$23,000,000	\$0	\$0	-17.7%	0.0%	0.0%	
Sales and Services - Total	\$24,800,000	\$24,800,000	\$24,600,000	(\$200,000)	\$0	-25.7%	-0.8%	-0.8%	
Miscellaneous	\$57,500,000	\$57,500,000	\$52,600,000	(\$4,900,000)	(\$2,900,000)	54.7%	-3.5%	-8.5%	
TOTAL - Departmental Revenues	\$252,000,000	\$177,700,000	\$176,300,000	(\$78,300,000)	(\$1,400,000)	22.7%	-29.5%	-30.7%	
TOTAL - GENERAL REVENUE	\$2,226,541,000	\$2,225,141,000	\$2,211,100,000	(\$55,100,000)	(\$14,041,000)	11.9%	-0.1%	-2.4%	
OTHER SOURCES									
Gas Tax Transfers	\$8,167,250	\$9,373,663	\$3,525,000	(\$5,848,663)	(\$7,500)	-37.2%	-56.7%	-62.4%	
Other Miscellaneous	\$76,190,797	\$77,467,130	\$59,293,763	(\$18,173,367)	\$100,000	-7.1%	-22.3%	-23.5%	
Lottery	\$177,200,000	\$187,200,000	\$188,300,000	\$10,100,000	\$1,100,000	18.6%	5.6%	5.7%	
Unclaimed Property	\$3,500,000	\$3,900,000	\$3,300,000	(\$600,000)	(\$200,000)	10.8%	0.0%	-15.4%	
TOTAL - Other Sources	\$265,058,047	\$268,940,793	\$254,418,763	(\$14,522,030)	\$992,500	6.7%	-4.4%	-5.4%	
TOTAL - RESOURCES AVAILABLE	\$2,491,599,047	\$2,535,140,793	\$2,465,518,763	(\$69,622,030)	(\$13,048,500)	11.3%	-0.5%	-2.7%	